Session date

THE FUTURE OF PUBLIC FINANCE IN A CHANGING WORLD

CIGFARO
Chartered Institute of
Government Finance, Audit & Risk Officers

Prof Zwelinzima Ndevu
Stellenbosch University

Context: South Africa's Fiscal Challenges

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

- Declining potential growth rates and deteriorating terms of trade
- Rising fiscal deficits and escalating public debt burden
- Persistent challenges in revenue collection and compliance
- State-owned enterprise contingent liabilities threatening sustainability
- Need for structural fiscal adjustment and genuine consolidation

Key Fiscal Pressures

- Public-sector wage bill growing beyond sustainable levels
- Electricity outages and infrastructure deficiencies
- State capture and governance failures impacting resource management
- COVID-19 pandemic amplifying structural imbalances
- Crowding-out effects: inflation moderating impact of fiscal variables on private

Municipal Financial Sustainability Crisis

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

- Inconsistent financial sustainability disclosures across municipalities
- Declining financial performance raising concerns about going-concern status
- Corruption, wasteful expenditure, and governance failures
- Insufficient capacity and skills in financial management
- Need for compliance with reporting standards to enhance transparency

State-Owned Enterprises: Governance & Performance

- Poor corporate governance practices undermining SOE effectiveness
- Leadership and compliance deficiencies affecting service delivery
- Inadequate disclosure of public service obligations
- Imbalance between ESG practices and financial sustainability objectives
- Tender irregularities and understaffing in critical functions

SOE Reform: Turnaround Strategies

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

- Financial restructuring through cost rationalization and revenue diversification
- Governance reconfiguration improving accountability and managerial autonomy
- Operational transformation driven by efficiency and performance systems
- Sustainable turnaround requires coordinated institutional reform
- Integration of three interdependent mechanisms essential for success

Procurement Innovation in SOEs

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

- Outcome-based contracting improving cost-effectiveness and service delivery
- Sustainable procurement barriers: institutional and governance constraints
- Need for preference procurement reform integrated with sustainability objectives
- Digital transformation and IoT/cloud computing enhancing transparency
- Supply chain management optimization reducing waste and inefficiency

Revenue Collection & Tax Administration

- SARS crossing R2 trillion revenue milestone in 2025/26
- Revenue shortfalls amid illicit trade and compliance gaps
- Tax compliance costs burden small, medium and micro enterprises
- Trust-based approach more effective than enforcement-only strategies
- Technology and digital innovation essential for compliance enhancement

Tax Reform: Digital Solutions & Simplification

- Automated e-filing and digital platforms reducing compliance burden
- Blockchain forensics and RegTech innovations for crypto tax compliance
- Simplification of VAT structure improving clarity and compliance
- Nudge strategies and behavioral approaches enhancing voluntary compliance
- Tax literacy and education programs critical for revenue mobilization

Budget Management & Expenditure Control

CIGFARO
Chartered Institute of
Government Finance, Audit & Risk Officers

- Shift from incremental budgeting to performance-based frameworks
- Medium-term budgets enhancing fiscal discipline and service delivery
- Improved internal controls and cost tracking mechanisms
- Adaptive budgeting frameworks addressing contemporary financial challenges
- Enhanced capacity development for departmental budget planners

Digital Transformation in Public Sector

- SITA leading e-government initiatives and digital infrastructure modernization
- Cloud computing and AI optimizing administrative processes
- Barriers: outdated infrastructure, procurement inefficiencies, resistance to change
- Benefits: reduced processing times, improved data management, enhanced accessibility
- Need for data governance frameworks and strategic technology partnerships

Fiscal Consolidation: Progress & Strategy

CIGFARO
Chartered Institute of
Government Finance, Audit & Risk Officers

- Debt expected to stabilize at 78.9% of GDP in 2025/26, declining thereafter
- Fiscal deficit narrowing from 5% to projected 3.4% of GDP by 2027/28
- Primary surplus enabling gradual debt reduction trajectory
- Fitch upgrade recognizing improved fiscal discipline and debt management
- Consistent delivery essential for sustained credibility and investor confidence

Public Finance Management Reform

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

- PFMA compliance critical but still challenged by institutional gaps
- High turnover of accounting officers impacting financial oversight
- Need for institutionalization of outcome-based approaches
- Integration of monitoring and evaluation into fiscal planning cycles
- Transition from compliance-based to adaptive, learning-oriented governance

Green Finance & Sustainable Development

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

- Public-private partnerships mobilizing sustainable infrastructure finance
- Green bonds attracting investment in renewable energy and transport
- Institutional capacity and regulatory coherence critical to effectiveness
- South Africa demonstrating 82% green bond project completion rate
- Policy stability essential for aligning financing with sectoral priorities

Innovation: Emerging Technologies & Solutions

- AI adoption barriers in SOEs but high potential for efficiency gains
- Artificial intelligence in revenue administration and compliance monitoring
- Internet of Things and smart systems optimizing resource management
- Blockchain enhancing transparency and accountability in public procurement
- Strategic investment in digital skills and infrastructure transformation

Institutional Capacity & Human Capital

- Employee retention critical for SOE performance and institutional knowledge
- Organizational culture, compensation, and training/development as key factors
- Knowledge management and tacit knowledge preservation essential
- Professional development and continuous skills enhancement required
- Alignment of HR strategies with organizational and strategic objectives

Governance Framework & Accountability

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

- Political interference and power struggles undermining SOE turnarounds
- Strengthened oversight bodies and compliance mechanisms needed
- Ethics and transparency cornerstone of institutional trust
- Corporate governance frameworks (Kings Code) advancing accountability standards
- Consequence management and integrity critical for reform credibility

Local Government & Municipal Reform

- Gap between public finance legislation and local economic development
- Capacity constraints, political will, and dereliction of duty barriers
- Financial sustainability disclosures improving transparency and accountability
- Medium-term budgets enhancing municipal fiscal discipline
- Skills development and improved monitoring systems essential for performance

Fiscal Anchor & Policy Framework

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

- Debt stabilization target anchoring forward fiscal outlook
- Numerical fiscal rules supporting credible medium-term strategy
- Institutional reforms strengthening fiscal discipline and governance
- International cooperation and technical assistance supporting reform
- Balanced approach addressing short-term stabilization and long-term sustainability

Private Sector Investment & Crowding Out

- High public debt reducing private capital formation
- Inflation magnifying fiscal pressures on private investment decisions
- Fiscal-monetary policy coordination essential for investor confidence
- Crowding-out theory validated particularly under inflationary conditions
- Sustainable debt management critical to stimulating long-term private investment

Environmental Fiscal Strategy & Climate Action

- Environmental tax policies addressing climate change and sustainability
- Revenue earmarking for environmental projects and green initiatives
- Integration of tax policies with broader sustainability objectives
- Public-private partnerships essential for renewable energy transition
- Policy coherence between fiscal and climate action imperatives

Strategic Priorities & Recommendations (1/2)

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

- Strengthen revenue administration through digital innovation and tax simplification
- Implement comprehensive SOE reform package: governance, procurement, performance
- Modernize budget frameworks toward adaptive, performance-based systems
- Invest in digital infrastructure and data governance for public sector transformation
- Enhance municipal financial sustainability through capacity building and oversight

Strategic Priorities & Recommendations (2/2)

- Institutionalize outcome-based approaches and evidence-informed governance
- Establish fiscal anchor with clear debt targets and numerical rules
- Foster trust-based tax compliance through education and simplified processes
- Expand green finance and sustainable development integration across public finance
- Build human capital through targeted skills development and institutional capacity

The Path Forward: Financial Sustainability

CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers

- Fiscal consolidation must be credible and consistent for investor confidence
- Innovation and reform essential to achieving sustainable public finances
- Governance excellence and institutional capacity underpin long-term success
- Digital transformation and emerging technologies critical enablers
- South Africa positioned to transition from fiscal crisis to sustainable growth

Thank You!

CIGFARO
Chartered Institute of
Government Finance, Audit & Risk Officers

www.cigfaro.co.za

SAQA Recognised Professional Body